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SUBJECT: CIVAIR: BILATERAL TALKS WITH UK

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SUMMARY: NEGOTIATIONS WITH UK FROM JULY 12-16 ON SEVERAL OUTSTANDING CAPACITY AND FARE ISSUES ENDED WITHOUT AGREEMENT, BUT US SIDE UNDERTOOK TO CONDUCT FURTHER REVIEWS OF SOME ISSUES. THE QUESTION OF RENEGOTIATION OF THE BERMUDA AGREEMENT WAS ALSO DISCUSSED DURING WEEK BOTH AT NEGOTIATING TABLE AND DURING CALL BY AMBASSADOR RAMSBOTHAM ON DEPUTY SECRETARY. BRITISH WERE APPARENTLY PLEASED US PREPARED BEGIN NEGOTIATION AS QUICKLY AS POSSIBLE. US WILLINGNESS TO DO SO HAS REDUCED BUT NOT ALTOGETHER ELIMINATED BRITISH THREATS TO ACT UNIATERA Y ON OUTSTANDING ISSUES. END SUMMARY.

1. LATEST ROUND OF AVIATION CONSULTATIONS WITH UK
(SEVENTH THIS YEAR AND FIRST SINCE BRITISH DENUNCIATION
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OF BERMUDA AGREEMENT) CENTERED FOR MOST PART ON US AIRLINE

OPERATIONS TO AND THROUGH HONG KONG WINTER 1976/77, TRANS-ATLANTIC CAPACITY AND PRESENT LEVEL TRANSATLANTIC NORMAL ECONOMY FARE AND EXCESS BAGGAGE CHARGES. ON JULY 15, BRITISH AMBASSADOR RAMSBOTHAM OUTLINED BRITISH VIEWS

WITH RESPECT TO RENEGOTIATION BERMUDA AGREEMENT TO DEPUTY SECRETARY ROBINSON AND AT FINAL SESSION JULY 16 UKDEL CHAIRMAN EXPANDED ON AMBASSADOR'S EXPOSITION.

2. PACIFIC CAPACITY - AT OPENING SESSION UKDEL REHEARSED BRITISH CONCERNS WITH VARIOUS US AIRLINE OPERATIONS AT HONG KONG AND PRESSED FOR SEVERAL REDUCTIONS OF THESE OPERATIONS. UKDEL ASSERTED GUAM-HONG KONG SERVICE, ALTHOUGH THIRD AND FOURTH FREEDOM, CHARACTERIZED BY LOW SEAT FACTORS SUGGESTING SERVICE INCONSISTENT WITH REQUIREMENT THAT IT BEAR RESEMBLANCE TO MARKET DEMAND. CONCERNING SYDNEY-HONG KONG, UKDEL POINTED TO HIGH PERCENTAGE OF FIFTH FREEDOM TRAFFIC AS CLEAR INDICATION OF INCONSISTENCY WITH BERMUDA CAPACITY PROVISIONS. FINALLY, UKDEL INDICATED PANAM OPERATIONS ON TEHRAN-HONG KONG AND NEW DELHI-HONG KONG PORTIONS OF PANAM RTW SERVICES HAD UNDUE EFFECT ON BRITISH AIRWAYS SERVICE ON SAME SEGMENTS.

3. USDEL ADVANCED ARGUMENTS THAT 1) SINCE PANAM ONLY AIRLINE OPERATING BETWEEN GUAM-HONG KONG APPROPRIATENESS OF SERVICE OR ITS EFFECT ON BRITISH CARRIER WERE MOOT QUESTIONS; 2) SITUATION BETWEEN SYDNEY-HONG KONG MAY CHANGE IN NEAR FUTURE TO UK SATISFACTION AND 3) PANAM RTW RIGHTS WERE NEGOTIATED IN 1966 AND QUESTIONS RELATING TO THEM SHOULD AWAIT RENEGOTIATION OF AGREEMENT. AT WEEK'S END SYDNEY-HONG KONG SERVICE APPEARED TO BE ONLY UNRESOLVED PACIFIC ISSUE ON WHICH BRITISH MAY ACT UNILATERALLY. WE LEARNED DURING WEEK THAT CATHAY PACIFIC HAS RECEIVED RIGHTS BETWEEN THESE POINTS FROM AUSTRALIANS PROVIDED, PANAM IS OUT OF THE MARKET BY SEPTEMBER 30. THIS UNDOUBTEDLY EXPLAINS UK INSISTENCE THAT PANAM TERMINATE THIS SERVICE BY SEPTEMBER 30. PANAM INTENDS TO TERMINATE SERVICE IN ANY CASE, BUT NOT UNTIL NEXT WINTER.

4. TRANSATLANTIC CAPACITY - UKDEL INITIALLY PRESSED FOR LIMITED OFFICIAL USE

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INTER-GOVERNMENTAL AGREEMENT REDUCING AIRLINE CAPACITY IN ALL US-UK MARKETS THIS WINTER. AT OUTSET OF TALKS, UKDEL ADVANCED NOTION THAT SEAT FACTORS ON ORDER OF 70 PERCENT SHOULD BE STANDARD AGAINST WHICH CONSISTENCY OF CAPACITY TO DEMAND SHOULD BE MEASURED. USDEL MAINTAINED THAT GOVERNMENTAL INTERVENTION IN MARKETS JUSTIFIED ONLY IN EXTREME CIRCUMSTANCES AND THERE WAS NO EVIDENCE OF SUCH CIRCUMSTANCES FOR COMING WINTER SEASON. AT WEEK'S

END IT APPEARED UKDEL SATISFIED WITH AIRLINE PLANS WITH RESPECT TO LOS ANGELES, DETROIT, BOSTON AND NEW YORK MARKETS BUT STILL CONCERNED WITH CHICAGO (WHERE FOR REASONS CONNECTED WITH MARKET IDENTITY TWA PROPOSES OPERATING FIVE TIMES A WEEK DESPITE SOME INDICATIONS FOUR FREQUENCIES WOULD BE ADEQUATE); MIAMI (WHERE NATIONAL

INITIALLY INSISTED ON ADDITIONAL DC-10 FREQUENCY FOR ITSELF TO ACHIEVE SEAT PARITY WITH BRITISH AIRWAYS B-747'S AND WHERE IT NOW INDICATES IT WILL OFFER DAILY SERVICE REGARDLESS OF WHAT BRITISH AIRWAYS DOES.); AND WASHINGTON (WHERE STICKING POINT WAS PANAM REACTION TO THIRD CONCORDE). USDEL AGREED TO DISCUSS THESE THREE MARKETS WITH US AIRLINES CONCERNED TO DETERMINE WHETHER VOLUNTARY ADJUSTMENTS ON THEIR PART MIGHT BE POSSIBLE. DEPARTMENT HAS DONE THIS BUT THREE US AIRLINES CONCERNED NOT AGREEABLE TO MAKING ALL ADJUSTMENTS BRITISH WANT (SEE REFTTEL FOR DETAILS). AS EMBASSY AWARE, THE BRITISH INDICATED THEY RESERVE RIGHT IMPOSE RESTRICTIONS UNILATERALLY IF THERE IS NO CAPACITY AGREEMENT BY JULY 31.

5. NORTH ATLANTIC AIR FARES AND EXCESS BAGGAGE CHARGES - A) DUE TO A PROCEDURAL INADVERTANCE BRITISH AUTHORITIES HAVE PUT THEMSELVES INTO A POSITION OF HAVING APPROVED TWO DIFFERENT NORMAL ECONOMY CLASS FARES ABOVE THE LEVEL THE CAB HAS APPROVED FOR THE REMAINDER OF THE SUMMER AND WHICH THE AIRLINES ARE CURRENTLY CHARGING. THEY PRESSED FOR AGREEMENT BETWEEN THE TWO GOVERNMENTS ON A COMPROMISE LEVEL TO CLEAR UP THIS SITUATION. USDEL INDICATED IT WOULD ASK CAB TO RECONSIDER ECONOMY CLASS FARE LEVEL, BUT IT IS UNLIKELY CAB WILL DO SO GIVEN INTER ALIA ITS OWN POLICY WITH RESPECT TO FARES AND PUBLIC AND OTHER PRESSURES IN THE FARE AREA. THERE IS IN ANY EVENT LITTLE LIMITED OFFICIAL USE

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THAT THE BRITISH CAN DO TO FORCE HIGHER ECONOMY FARES SINCE COMPETITION IN MARKET PLACE WILL LEAD AIRLINES TO OFFER LOWER CAB APPROVED FARES. B) AS EMBASSY AWARE, CAB HAS NOW CANCELLED EXCESS BAGGAGE CHARGES BECAUSE IT HAS FOUND SUCH CHARGES UNRELATED TO ACTUAL COSTS. THE UK AND OTHER COUNTRIES HAVE OBJECTED TO CAB ACTION NOT ON GROUNDS THAT THEY DISAGREE CHARGES ARE EXCESSIVE BUT BECAUSE CAB ACTED UNILATERALLY AND DID NOT GIVE IATA SUFFICIENT TIME TO REACH ACCEPTABLE EXCESS BAGGAGE CHARGES. BY WEEK'S END UKDEL INDICATED WILLINGNESS TO LET THIS ISSUE REST FOR THE MOMENT.

6. RENEGOTIATION OF BERMUDA AGREEMENT - A) ON JULY 15, UK AMBASSADOR RAMSBOTHAM CALLED ON DEPUTY SECRETARY ROBINSON AND PRESENTED BRITISH VIEWS CONCERNING RENEGO-

TIATION. UKDEL CHAIRMAN EXPANDED ON AMBASSADOR'S PRESENTATION ON FINAL SESSION ON JULY 16. (MEMCON OF JULY 15 CALL AND COPIES OF UK CHAIRMAN'S SPEAKING NOTES POUCHED TO EMBASSY.) PRIOR TO AMBASSADOR'S CALL, AS IT BECAME CLEARER THAT PENDING ISSUES COULD LEAD TO POTENTIAL CONFRONTATION, USDEL PROPOSED THAT BOTH SIDES BEGIN RE-NEGOTIATIONS AS SOON AS POSSIBLE AND SUGGESTED A FIRST MEETING EARLY IN SEPTEMBER. (PURPOSE OF THIS WAS TO

DEEMPHASIZE OUTSTANDING CURRENT ISSUES AND THEREBY REDUCE OR ELIMINATE POSSIBLE UK UNILATERAL ACTION ON THESE ISSUES.) UKDEL INDICATED BRITISH THINKING ALONG SAME LINES AND WERE VISIBLY RELIEVED US NOT ADOPTING STALLING TACTICS. USDEL ASKED UKDEL SUBMIT BRITISH PROPOSALS CONCERNING RENEGOTIATIONS AS SOON AS POSSIBLE. UK SIDE UNDERTOOK TO DO SO BEFORE SEPTEMBER MEETING. B) RAMSBOTHAM'S AND UKDEL'S PRESENTATIONS CONTAINED NO SURPRISES. IN GENERAL, BRITISH APPROACH IS TO REPLACE "FAIR AND EQUAL OPPORTUNITY" PRINCIPLE OF PRESENT AGREEMENT WITH ONE OF "EQUAL RESULTS," OR EQUAL SHARES GUARANTEED, IF NECESSARY BY GOVERNMENTAL INTERVENTION. APPROACHES ALSO INDICATED BRITISH WANT SINGLE DESIGNATION ON EACH ROUTE AND CURTAILMENT IF NOT ELIMINATION OF US FIFTH FREEDOM RIGHTS.

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